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IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

Profile Manufacturing, Inc., and John F. Gall, James R. Gall, and Donald G. Blondeau, individually, jointly and severally,

Petitioners,

v.

Ronald D. Kress and Kress & Company,

Respondents.

Petition For A Writ Of Certiorari To The Michigan Supreme Court

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

1. Whether the finality requirement of 28 U.S.C. § 1257 has been met.

2. Whether a state trial court, in assuming jurisdiction over a claim seeking the protection of federal patent laws, arising out of the alleged expiration of a patent license agreement, has exceeded its subject matter jurisdiction and is preempted by the exclusive patent jurisdiction of the federal courts as set forth in 28 U.S.C. § 1338 and the Supremacy Clause of the United States Constitution.

LIST OF PARTIES

Petitioners:

Profile Manufacturing, Inc., a Michigan corporation.

John F. Gall, James R. Gall and Donald C. Blondeau, individuals residing in Michigan.

Respondents:

Ronald D. Kress, an individual residing in Michigan.

Kress & Company, a Michigan d/b/a, doing business in Michigan.

Neither Petitioner nor Respondent has any parent or subsidiary companies.

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Petitioners,

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Ronald D. Kress and Kress & Company,

Respondents.

Petition For A Writ Of Certiorari To The Michigan Supreme Court

PETITION FOR A WRIT OF CERTIORARI

The Petitioners herein respectfully request that a writ of certiorari issue to review the findings of the Michigan trial court and the refusal of the Michigan Court of Appeals and Michigan Supreme Court to review that decision.

OPINIONS BELOW

The orders of the trial court, Michigan Court of Appeals and Michigan Supreme Court are contained in the appendix hereto.

JURISDICTION

Basis For Federal Jurisdiction

Petitioners filed a motion for summary disposition [state court corollary to summary judgment] seeking dismissal of the state court action on the basis that another action involving the same issues was pending before the federal court which possessed jurisdiction fully encompassing over all issues, including the patent issues. The state court denied Petitioners' motion in an order dated April 27, 1993. Petitioners then filed a timely motion to stay proceedings in the state trial court pending interlocutory appeal to the Michigan Court of Appeals. The state trial court denied that motion in an order dated April 28, 1993.

Petitioners then timely sought leave to appeal to the Michigan Court of Appeals. That application for leave to appeal raised the lack of subject matter jurisdiction of the Michigan courts to address the patent issues, the exclusive federal court jurisdiction over those issues and the preemptive effect of exclusive federal subject matter jurisdiction. By order dated August 4, 1993, the Michigan Court of Appeals denied Petitioners' motion for leave to appeal and denied Petitioners' timely filed Motion for Reconsideration by order dated September 23, 1993. Petitioners then timely sought review by the Michigan Supreme Court of the Michigan trial court's decision but the Michigan Supreme Court declined to review the matter by order dated January 25, 1994.

The Jurisdiction of this Court is invoked under 28 U.S.C. § 1257(a) and 28 U.S.C. § 2104.

The Final Judgment Rule

The final judgment rule, as stated in 28 U.S.C. § 1257(a), over the years, has been the subject of much refinement and interpretation. As a result, several exceptions to absolute finality exist which permit review by this Court. Although there has not been a final adjudication on the merits in this case, three exceptions to the final judgment rule exist which permit review of this matter. In *Cox Broadcasting Corp. v. Cohn*, 420 U.S. 469, 95 S.Ct. 1029, 43 L.Ed.2d 328 (1975), the Court described four categories of cases in which an appeal could be taken in the absence of technical finality.

The second such category described by the Court in *Cox* consists of cases in which "the federal issue, finally decided by the highest court in the state, will survive and require decision regardless of the outcome of future state court proceedings." *Cox, supra* at 480. The Michigan appellate courts have refused to review the decision by the state trial court assuming jurisdiction over the patent issues raised in the Respondents' state court action. Two possible scenarios are likely to develop if the Michigan trial court's decision rests. The first scenario relates to the second category described in *Cox, supra*. Under this scenario, if the state court goes beyond the license (contract) issue and addresses the patent issues, the patent issues having once been decided by a court without subject matter jurisdiction will later be left for resolution by the federal court. Under this likely scenario, the federal issues will survive and require decision by the federal courts without regard to the outcome of future state court proceedings.

This is the path that the Michigan Court of Appeals in *Miracle Boot Puller, Ltd. v. Plastray Corp.*, 57 Mich.App.

443, 225 N.W.2d 800 (1975) (*Boot Puller I*), 84 Mich.App. 118, 269 N.W.2d 496 (1978) (*Boot Puller II*), admonished Michigan trial courts to avoid. In that case, one involving claims of "conversion of patent rights," a trial, first appeal, remand, second trial and second appeal all proved to be a futile expenditure because the state courts lacked subject matter jurisdiction over the patent claims. After more than four years of state court proceedings, the parties were before the federal court to *begin* resolving the issues that the state courts could never resolve. So too in this case, recognizing the proper place of federal jurisdiction, the parties cannot resolve the patent issues, such as the question of inventorship, unless and until those issues are adjudicated by the federal courts. This is the very "mischief of economic waste" and "delayed justice" that the Supreme Court has sought to avoid under the final judgment rule. *Cox, supra* at 477 (quoting *Radio Station WOW, Inc. v. Johnson*, 326 U.S. 120, 124, 65 S.Ct. 1475, 89 L.Ed. 2092 (1945).

The third category of *Cox* permits review in cases if the petitioner prevails on the merits and "the federal issue will be mooted; if [Petitioners] were to lose on the merits, however, the governing state law would not permit [Petitioners] again to present [their] federal claims for review." *Cox*, 420 U.S. at 481. If the state trial court's ruling is left undisturbed, the second possible scenario would find Petitioners having litigated the underlying patent issues relating to the claimed expiration of an alleged license agreement and not having recourse in the Michigan appellate courts because the judgment of the state trial court was based in state contract law.

Having once litigated issues pertaining to the exclusive right of use and infringement *necessary to the resolution of the contract issues*, a serious question would then exist

whether Petitioners would later be precluded from relitigating such issues in the federal court even though the federal court possessed exclusive jurisdiction over the patent issues.[1] And, this is one reason why Petitioner seeks interim review. In this event, if Petitioners prevail on issues of exclusive right of use and conflicting or infringing uses, and if those issues are decided by reference only to state contract law, the federal issues would be mooted even though resolution of the federal issues was necessary to a decision of the state law issues which involve Respondent Kress' claims to patent protection conferring the exclusive right of use that he seeks. Conversely, if the Petitioners were to lose on the merits, even found to have violated Respondent's claimed patent rights, an appeal of such issues may not be available if the judgment of the state trial court is couched in state contract principles rather than an outright determination on the patent issues—even though an adjudication of the exclusive right of use and the identification of conflicting or infringing uses would be necessary to reach this conclusion. In either event, the important federal issues raised by this Petition would not be given a venue for review.

The fourth category of *Cox* also affords interim review by this Court. From cases like *Mercantile National Bank v. Langdeau*, 371 U.S. 555, 83 S.Ct. 520, 9 L.Ed.2d 523 (1963), the Court in *Cox* included in this category cases in which

> the federal issue has been finally decided in the state courts with further proceedings pending in which the party seeking review here might prevail on the merits

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[1] *See MGA, Inc. v. General Motors Corp.*, 827 F.2d 729 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1009, 108 S.Ct. 705 (1988), discussed *infra* at 24-25.

> on nonfederal grounds, thus rendering unnecessary review of the federal issue by this Court, and where reversal of the state court on the federal issue would be preclusive of any further litigation on the relevant cause of action rather than merely controlling the nature and character of, or determining the admissibility of evidence in, the state proceedings still to come. In these circumstances, if a refusal immediately to review the state-court decision might seriously erode federal policy, the Court has entertained and decided the federal issue, which itself has been finally determined by the state courts for the purposes of the state litigation. *Cox*, 420 U.S. 482-83.

The fourth category of *Cox* establishes an interim basis for review. The state trial court's ruling on jurisdiction can be said to be collateral to the underlying litigation to the extent the question involves *who* decides the issues rather than *how* the issue is decided.

The fourth category of *Cox* would recognize that, having passed upon the opportunity to review the state court's decision, the situs of subject matter jurisdiction has been finally decided in the state courts and the case, as it currently stands, will proceed to trial on the basis of that erroneous assumption of subject matter jurisdiction. It is possible for the Petitioners to prevail on non-federal grounds before the state trial court, rendering unnecessary a decision of the federal issue, leaving unchallenged the state court's assertion of exclusive federal jurisdiction. Reversal of the state courts will end any further litigation on the federal patent issues, leaving those issues for resolution in the companion litigation pending before the federal court. To the extent that the state courts seek to address federal patent issues such as patent validity, exclusive rights of use and infringement, reversal of the state courts would be preclusive of any further litigation on the federal

questions before the state courts, not merely controlling the character of evidence in those proceedings. If not reviewed immediately, the state court's decision could undermine the significant interest in exclusive federal jurisdiction over patent claims and erode the federal and state interests balanced by the Patent and Supremacy Clauses of the United States Constitution and the jurisdictional adherence required of state courts.

In *Langdeau, supra*, one reason why the Court allowed an appeal, said the Court, was to avoid the cost of subjecting the parties to "long and complex litigation which may all be for naught if consideration of the preliminary question of venue is postponed until the conclusion of the proceedings." *Id.* at 558. Here, the fundamental and important consideration of subject matter jurisdiction is at stake. As in *Langdeau*, the adjudication on the merits by the state courts may well be for naught because the state court from the beginning lacked subject matter jurisdiction over the patent issues.

The state courts have been given the right to review the action of the state trial court in seeking to exercise subject matter jurisdiction where none exists. The federal-state tension has thus been resolved by allowing the Michigan state courts the opportunity to finally resolve the jurisdictional issues presented in this case. The refusal of the Michigan appellate courts to pass upon and correct the ruling of the Michigan trial court makes review of the state court's ruling on exclusive federal jurisdiction appropriate for review by this Court.

STATUTES AND ORDERS INVOLVED

There are no decisions pertaining to this Petition. Orders from the Michigan Supreme Court, Michigan Court of Appeals and Michigan trial court are contained in the appendix hereto.

Constitutional provisions and statutes pertaining to this matter include:

28 U.S.C. § 1257; 28 U.S.C. § 2104; 28 U.S.C. § 1338; Patent Clause, U.S. Const., Art. I, § 8, cl. 8; Supremacy Clause, U.S. Const., Art. VI, cl. 2.

The above constitutional provisions and statutes are set forth verbatim in the appendix hereto at pp. 8a-10a.

STATEMENT OF THE CASE

The Respondents herein, Ronald D. Kress and Kress and Company filed an action in Michigan state court on February 17, 1993. Count V of that Complaint alleged that Respondent Ronald D. Kress had secured a patent in his name, had granted a "royalty free" license to Petitioners, and that Petitioners were infringing upon Respondent's patent rights by manufacturing the patented auto side molding attachment system. Due to the exclusive nature of federal jurisdiction over questions arising under the patent laws, Petitioners removed the action to the United States District for the Eastern District of Michigan. However, prior to filing an answer, Respondents entered a voluntary dismissal and immediately refiled their action in Michigan state court.

The issues stated in the Respondents' refiled action were identical to the issues raised in the original complaint except for the elimination of some of the elements stating a claim for patent infringement. The original and

the refiled complaint alleged that (1) Respondent Kress is the inventor and owner of a "Clip for Mounting and Molding" which is the subject of United States Patent No. 5,134,829; (2) during his employment with Petitioner Profile Manufacturing, Inc., Respondent Kress allegedly gave a non-exclusive, royalty free license to manufacture products utilizing the patent, (3) such license was to continue only for so long as Respondent Kress continued in the employ of Petitioner Profile, and (4) Petitioner Profile had constructively discharged Kress as an employee thereby terminating the royalty free license.

The original complaint contained the following language which was removed from the refiled complaint:

> 51. Upon information and belief, Profile is still engaged in the manufacture of products utilizing the patented process, despite the expiration of the license.

In addition, the refiled complaint omitted as part of the claim for relief that Respondents were entitled to an order "permanently enjoining Profile from continuing the manufacture of products utilizing the patented process." The refiled complaint, however, in addition to asking for a declaration that the alleged patent license had expired, asked for a general award of relief "as the Court deems to be just and appropriate." Despite the omitted language from the refiled complaint, a reasonable construction of the refiled complaint shows that the Petitioners are allegedly utilizing the patented process in an unauthorized or infringing fashion. No other construction can be given to the refiled state court complaint because without a claim for patent infringement and the subsidiary assumptions made to support such a claim (i.e., that the Respondent owns the patent and that Petitioners have no legitimate ownership interest in the patent and have no right to

utilize the patent), Respondents relief against Petitioners would be meaningless.

To place the case before the court having jurisdiction to resolve issues of patent ownership, inventorship and infringement, all of which are in dispute, Petitioners filed a declaratory action in the United States District Court for the Eastern District of Michigan. That action alleges that Respondent Kress is not the owner of the patent and that Petitioner Profile Mfg., Inc. should have title to the patent, it also seeks to order a correction of the patent under 35 U.S.C. § 256, and other requested relief.

The United States District Court for the Eastern District of Michigan has entered a stay order of the federal action pending resolution of the state court action. Petitioner sought reconsideration of that order, and that motion was denied. Petitioners then sought and obtained review by the United States Court of Appeals for the Federal Circuit of the federal district court's stay order. In an opinion entered on March 30, 1994, the United States Court of Appeals for the Federal Circuit affirmed the district court's order staying the federal action pending resolution of the state action. This ruling was based upon the assumption that the state court will not exceed its subject matter jurisdiction and will leave the patent issues for resolution by the federal court. The Federal Circuit, however, could not address the exercise of subject matter jurisdiction by the state trial court over federal patent claims, which Petitioners herein call into question, because such issues were not before the Federal Circuit. Petitioners' only remaining forum for the review of the state court's exercise of subject matter jurisdiction over questions arising under the federal patent laws is the United States Supreme Court.

Presentment Of The Federal Question

Petitioners filed a motion for summary disposition [state court corollary to summary judgment] seeking dismissal of the state court action on the basis that another action involving the same issues was pending before the federal court which possessed jurisdiction fully encompassing over all issues, including the patent issues. The state court denied Petitioners' motion in an order dated April 27, 1993. Petitioners then filed a timely motion to stay proceedings in the state trial court pending interlocutory appeal to the Michigan Court of Appeals. The state trial court denied that motion in an order dated April 28, 1993.

Petitioners then sought leave to appeal to the Michigan Court of Appeals. That application for leave to appeal raised the lack of subject matter jurisdiction of the Michigan courts to address the patent issues, the exclusive federal court jurisdiction over those issues and the preemptive effect of exclusive federal jurisdiction under 28 U.S.C. § 1338 and the Supremacy Clause of the United States Constitution. By order dated August 4, 1993, the Michigan Court of Appeals denied Petitioners' motion for leave to appeal and denied Petitioners' timely filed Motion for Reconsideration by order dated September 23, 1993. Petitioners then timely sought review by the Michigan Supreme Court (on the same grounds presented to the Michigan Court of Appeals) of the Michigan trial court's decision but the Michigan Supreme Court declined to review the matter by order dated January 25, 1994.

REASONS FOR GRANTING THE WRIT

Conflicts In Principle

Federal district courts have original and exclusive jurisdiction of cases arising under the patent laws. Because federal courts have exclusive jurisdiction, state courts have no jurisdiction over cases arising under federal patent laws. 28 U.S.C. § 1331, 1338(a) and (b) (1988). Because Congress has stated that federal courts shall occupy an exclusive jurisdictional position over patent claims, state courts are preempted from encroaching upon the exclusive province of federal courts in this area.[2] The Supreme Court has held that in order to demonstrate that a case is one "arising under" federal patent law, "the plaintiff must set up some right, title or interest under the patent laws, or at least make it appear that some right or privilege will be defeated by one construction, or sustained by the opposite construction of these laws." *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800, 807-808, 108 S.Ct. 2166, 100 L.Ed.2d 811 (1988) (quoting *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 259 (1897)). The Court has held

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[2] *See* 28 U.S.C. § 1331, 1338(a) and (b) (1988) and the Supremacy Clause, U.S. Const., Art. VI, cl. 2. For a discussion of the preemptive effect of federal patent law, and the Patent Clause of the United States Constitution, Article I, § 8, cl. 8 and the Supremacy Clause, *see Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 109 S.Ct. 971, 103 L.Ed.2d 118 (1989). In *Metropolitan Life Insurance Co. v. Taylor*, 481 U.S. 58, 107 S.Ct. 1542, 95 L.Ed.2d 55 (1987), a case often cited in reference to the well-pleaded complaint rule, the Supreme Court stated that "[o]ne corollary of the well-pleaded Complaint rule . . . is that Congress may so clearly preempt a particular area, that any civil complaint raising this select group of claims is necessarily federal in character." *Id.* at 63-64. In 28 U.S.C. § 1338(a) and (b), Congress has placed the mark of federal court jurisdiction on patent claims as "necessarily federal in character."

that the exclusive jurisdiction of the federal courts under § 1338(a) extends to "only those cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends on resolution of a substantial question of federal patent law in that federal patent law is a necessary element of one of the well-pleaded claims." *Christianson, supra*, at 809.[3] As the Court recognized in *Christianson, supra*, it is not necessary for a claim to make reference to federal patent law for the claim to "arise under" federal patent law:

> On the other hand, merely because a claim makes no reference to federal patent law does not necessarily mean the claim does not "arise under" patent law. Just as "a plaintiff may not defeat removal by omitting to plead necessary federal questions in a

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[3] Although *Lear, Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902, 23 L.Ed.2d 610 (1969) is sometimes cited for the proposition that state courts may in the first instance speak to issues of patent validity raised as a defense in a license dispute, Petitioners believe that the *Lear* case is inapposite to this Petition because *Lear* did not directly deal with the "arising under" question of federal jurisdiction. In that case, unlike this case, the jurisdiction of the state courts was not called into question (1) because neither party sought out the jurisdiction of the federal courts, and (2) because the question of patent validity was raised as a defense rather than as a matter set forth in the plaintiff's well pleaded complaint. As contrasted to *Lear*, the Petitioners in this case have charged the Michigan state courts with a lack of subject matter jurisdiction over the patent related issues, not as a defense to the Respondents' complaint, but as raised *by* the Respondents' complaint. In *Lear*, the Supreme Court was obligated to remand the case back to the California state courts even as to a decision on patent validity because there was no federal court to assume jurisdiction and no apparent basis for federal jurisdiction arising under the plaintiff's claim for relief. Whereas *Christianson v. Colt Industries, supra*, dealt with the "arising under" question and the scope of federal jurisdiction, Petitioners believe that it is the appropriate reference authority in this case.

> complaint," *Franchise Tax Board, supra*, at 22 (citations omitted); *see Federated Department Stores, Inc. v. Moitie*, 452 U.S. 394, 397, n.2 (1981); *Id.* at 408, n.3 (Brennan, J. dissenting), so a plaintiff may not defeat § 1338(a) jurisdiction by omitting to plead necessary federal patent law questions. *Id.* at 809-810 n.3.

In the instant case, after Petitioners removed the original complaint to the federal court, Respondents entered a voluntary dismissal of that complaint and filed a new complaint in state court omitting references to patent infringement and an express claim for injunctive relief for alleged infringing use on the part of Petitioners. However, although the Respondents have omitted to plead elements of the federal patent laws, they seek the protection of the federal patent laws and seek to establish an exclusive right of use, which if granted, then leads to the conclusion that any other uses are infringements upon Respondent Kress' alleged patent rights. Respondents have taken this route to invoking the protection of the federal patent laws as a method of defeating removal and ensuring a favorable forum.

In cases complaining of failure to pay royalties due under a patent licensing agreement, federal courts have consistently viewed such cases as arising out of state contract law and not "arising under" federal patent laws. Long standing authority has also held that raising patent-related defenses in the answer to a complaint cannot create the "arising under" jurisdiction granted to federal courts under § 1338 even though these defenses may require application of the federal patent laws. *See American Well Works Co. v. Layne and Bowler Co.*, 241 U.S. 257, 260, 36 S.Ct. 585, 586, 60 L.Ed. 987 (1916).

The case sub judice represents the odd and uncomfortable ground which cannot be said to be a state contract

action, but is not an *obvious* case for federal concern. For jurisdictional purposes, the Respondents' complaint is not simply a state contract action because it does not seek enforcement of the license, nor does it seek damages arising out of that contract. Rather, it seeks a declaration that no contract exists, the effect of which would be to confer an exclusive right of use on the Respondent Kress under the patent laws and would serve as an indictment of those infringing upon patent rights. At the same time, the case does not conspicuously "arise under" the federal patent laws because the complaint does not openly confess that it seeks to confer an exclusive right of use or remedies for infringement. But with the Respondents' requested declaration, an exclusive right of use would be conferred under the Respondents' complaint, and any past or continuing use of the patent would be an infringement of that exclusive right of use. As the companion federal case demonstrates, the alleged license issue is a forum selection cover for the only real issue of the case, i.e. who the real inventor is, and who properly should hold the patent rights. Accordingly, this case cannot be neatly placed into a compartment of this Court's prior holdings. The substance of Count V of the Respondents' complaint must be scrutinized to see if its purpose and effect is to invoke the protection of the federal patent laws.[4]

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[4] In *Air Products and Chemicals, Inc. v. Reichhold Chemicals, Inc.*, 755 F.2d 1559 (Fed. Cir. 1983), *cert. denied*, 473 U.S. 929, 106 S.Ct. 22 (1984), the court noted that if the question whether there has been an infringement of a patent depends upon the construction of the provisions of a contract, and not upon the construction of an act of Congress relating to patents, the controversy is not one arising under the patent laws. The Court found that even if a question of contract law must be decided prior to reaching the infringement question, this does not defeat federal subject matter

(Footnote continued on following page)

The question in this case is whether a plaintiff, as a method of selecting a favorable forum, can plead a case for exclusive use of a patent, thereby invoking the protection of the patent laws, without invoking federal jurisdiction. Respondents' refiled state case alleges (1) the existence of a patent in the Respondent Kress' name,[5] (2) the termination of a license to manufacture products utilizing the patented process, and (3) a requested declaration that the license agreement has expired. Although there is no reference to infringement, as framed, the Complaint equates infringement with expiration of the alleged license agreement. In rendering a judgment in favor of Respondents, it will be necessary to find that (a) a properly granted patent exists in the name of Respondent Kress, (b) Petitioners have no legitimate claim to the patent, (c) a license agreement existed and has expired, and as a result, (d) that Petitioners have no right to utilize the patent.

Respondents seek protection of the patent laws to confer an exclusive right of use, which in the state case may be defeated or sustained by opposing constructions of the patent laws, and elements of patent infringement comprise the central aspects of Respondents' action. With a declara-

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[4] *continued*
jurisdiction. *Id.* at 1563. The court reasoned that, "in determining subject matter jurisdiction, the court must consider as a whole the substance of the claim in addition to the language of the complaint, and may also consider jurisdictional facts outside the pleadings." *Id.* at 1561. This is the kind of approach to the "arising under" question that Petitioners assert would better preserve the exclusive federal jurisdiction that Congress set forth in 28 U.S.C. § 1338.

[5] This claim is of central concern as Petitioners claim that the patent rightfully belongs to Defendant, Profile Mfg. Inc. The patent was developed on company time, utilizing company personnel, company resources and most importantly, developed by Mr. James Gall, a shareholder and employee of Profile Mfg. Inc.

tion that the alleged license agreement has expired, Respondents would next move for an injunction permanently restraining Petitioners from manufacturing the subject of the patent. Respondents' general request for relief is broad enough to encompass a request for injunctive relief to prohibit manufacture of the patented part by seeking "such other relief as the Court deems to be just and proper." Where the "essential features [of the bill] were the allegation of an infringement," the Court has held that the plaintiff's case arose under the patent laws. *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 481 (1915). Even where the complaint anticipates a defense of license, as in the present case, the prior resolution of a state law question does not deprive a federal court of subject matter jurisdiction where the plaintiff bases his claim upon the patent laws. *Air Products and Chemicals, Inc. v. Reichhold Chemicals, Inc.*, 755 F.2d 1559 (Fed. Cir. 1985), *cert. denied*, 473 U.S. 929, 106 S.Ct. 22 (1986).

The Respondents, as a method of selecting a favorable forum, have attempted to plead a case for exclusive use of a patent, thereby invoking the protection of the patent laws, while also seeking to avoid federal jurisdiction. The complaint, however, remains as one calling for relief due to exclusive manufacturing rights conferred by the federal patent laws, under which Petitioners are charged with a lack of authority to manufacture such patented product (i.e. patent infringement) due to the continuing manufacture of the product after the claimed expiration of the alleged license.

One must consider the relief Respondents do *not* seek. Respondents do not seek damages for breach of a license agreement, nor do the Respondents ask for the payment of royalties under the claimed licensing agreement because the Respondents allege that the license was "royalty free"

and should be terminated. Rather, they seek a declaration that the license has expired thereby giving Respondents the exclusive right to utilize the patent. Under *Christianson, supra*, this is a case which "necessarily depends upon resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims." *Id.* at 809. That the necessary elements of patent law form the essence of the complaint, even without reference to those elements in the complaint, does not change the nature of the complaint as one calling for application of the patent laws to secure patent law protection. *See Christianson et al. v. Colt Industries Operation Corp., supra*, at 809 n.3 (". . . a plaintiff may not defeat § 1338(a) jurisdiction by omitting to plead necessary federal patent law questions.").

In this case, the Respondents' reasons for seeking relief are bound together with the "provisions and purposes" of federal patent law and the relief claimed will likely encompass a claim for protection for unauthorized or infringing uses. In *Excelsior Wooden Pipe Co. v. Pacific Bridge Co.*, 185 U.S. 282, 291, 22 S.Ct. 681, 684, 46 L.Ed. 910 (1902), the Court held that a federal court had jurisdiction over a cause of action by a licensee alleging exclusive rights of use by the licensor where the licensor alleged that the license had been abandoned. The Supreme Court recognized that a licensee, just as any plaintiff, must set forth his title to the patent and therefore puts that title at issue. As the Supreme Court held, "[t]he defendant is at liberty in such a case to deny the title of the plaintiff by declaring that the license no longer exists, . . . but . . . this does not make it a suit upon the license or contract, but it still remains a suit for infringement of a patent . . ." *Id.* Similarly, the Federal Circuit Court of Appeals in *Yarway Corp. v. Eur-Control USA, Inc.*, 775 F.2d 268,

273 (Fed. Cir. 1985) has held that although the parties' relationship may be that of licensor to licensee, and is based upon contract, the case may arise under the federal patent laws.

The determination whether the Petitioners are, or are not licensees, must necessarily encompass resolution of the status of Petitioners and Respondent Kress vis-a-vis the patent itself. Under the Respondents' claims, the state court must resolve the issue of inventorship,[6] any question of co-inventorship,[7] and whether a valid patent even exists[8] such to merit the Respondents' claim that the patent affords protection. If co-inventorship is found, the court will then be required to address whether non-joinder was "without deceptive intention" within the meaning of 35 U.S.C. § 256 of the patent laws. If the Petitioners are the true inventors, then how can they be relegated to the status of licensees? If the Respondent Kress does not hold a valid patent, then he can hardly claim an exclusive right of use. If the Petitioners are mere licensees, then by definition, can they also be the patentees?

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[6] 35 U.S.C. § 102(f) provides that a person shall be entitled to a patent unless "he did not himself invent the subject matter sought to be patented."

[7] 35 U.S.C. § 116 provides that joint inventorship must be reflected on an application for a patent. A valid patent can only be granted to the real inventor and in the case of a patent which is a joint invention, a patent issued to only one of the inventors is void. *Pointer v. Six Wheel Corp.*, 177 F.2d 153 (9th Cir. 1949), *cert. denied*, 339 U.S. 911, 70 S.Ct. 570, 94 L.Ed. 1338 (1950).

[8] *See* 35 U.S.C. § 153. Fraud in the prosecution of a patent will, if established, result in a patent being held invalid or unenforceable. *Plastic Containers Corp. v. Continental Plastics of Oklahoma*, 607 F.2d 885 (10th Cir. 1979), *cert. denied*, 444 U.S. 1018, 100 S.Ct. 672, 62 L.Ed.2d 648 (1980), on remand 515 F.Supp. 834.

In the potentially broad sweep of the state court's exercise of jurisdiction, then, either the Respondent Kress or Petitioners must be found to have a legitimate entitlement to patent protection in order to find that the expiration of the license confers an exclusive right to the use of the patent. If the Respondents claim, as they do, that the declaration of patent rights entitles them to protection, then they must necessarily place title to that patent in issue. Finally, the state trial court, having decided the respective patent rights of the parties, and having found the existence and expiration of a license, to afford any relief, would be required to find that Petitioners have utilized the patent without authority and have thereby infringed upon the patent rights of Respondent Kress. Each of these determinations arises by reference only to the Respondents' complaint.

By assuming jurisdiction, the Michigan courts have apparently misconceived the nature of this case by focusing upon the fact that the determination of patent infringement and the scope of protection under the patent laws is related to the resolution of the license dispute. Such a finding directly conflicts with cases such as *Air Products and Chemicals, Inc. v. Reichhold Chemicals, Inc.*, 755 F.2d 1559 (Fed. Cir. 1985) in which federal jurisdiction must be determined by reference to the underlying relief sought by the plaintiff's complaint and not by mere reference to a license agreement. Based upon the assumption such claims do not arise under the patent laws, the assumption of jurisdiction by the Michigan courts conflicts with the goal of preserving a uniform body of federal substantive law interpreting and applying the patent laws. Perhaps this is why the Supreme Court added in *Metropolitan Life Insurance Co. v. Taylor*, 481 U.S. 58, 63-64, 107 S.Ct. 1542, 95 L.Ed.2d 55 (1987), "[o]ne corollary of the well-pleaded Complaint rule . . . is that Congress may

so clearly pre-empt a particular area, that any civil complaint raising this select group of claims is necessarily federal in character."

Jurisdictional Importance

As the confusion of the Michigan courts demonstrates, state and federal courts lack sufficient definition of those cases, like this case, which arise under the patent laws through claims of patent license abandonment, recision, termination or expiration. This is a particularly difficult territory for the "arising under" question because such cases do not fall neatly under the "arising under" or state contract law category, but rather, demand scrutiny of the purpose and effect of the claim. However, whether such a claim is made by a licensee, or a licensor as alleged in this case, such cases place title to the patent at issue and seek the protection of the patent laws for claims of exclusive rights to patents. Even before this Court's ruling in *Christianson v. Colt Industries, Inc., supra*, federal and state courts have experienced difficulty in identifying those cases falling within or without the purview of the federal patent laws. After *Christianson*, federal and state courts are still without clear guidance as to whether cases seeking the protection of the patent laws under a claim of patent abandonment, recision, termination or expiration arise under the federal patent laws.

In answer to the question whether such cases arise under the patent laws, some courts have asked whether the federal patent laws were the "primary" or "secondary" source of the plaintiff's claims. The conclusion that patent issues comprised the primary basis of the complaint meant that the case arose under the federal patent laws. A finding that the patent issues amounted to only a "secondary" basis compelled the conclusion that no federal

jurisdiction existed. This has not been a meaningful guide in delineating exclusive federal jurisdiction. In most such cases, the determination of federal jurisdiction on this basis is founded only upon a set of artificially assigned values seeking to judge the importance of the patent and non-patent issues.

This analysis also is predicated upon the court's judgment and predictions as to the course of the litigation, which even with the benefit of discovery, is not a reliable basis to judge federal jurisdiction. The inherent difficulty, of course, is that patent and non-patent issues can be equally important to a case. In *Air Products and Chemicals, Inc., supra*, the Federal Circuit Court of Appeals recognized the inherent flaw in this assessment of federal jurisdiction. The Court held that the district court in that case mischaracterized the nature of the case by viewing the contract issue as "primary" or "dominant." "We do not believe that characterizing issues as primary or secondary," the Court said, "aids the court in the determination of jurisdiction." *Id.* at 1563.

At odds with this reasoning, however, the Federal Circuit has sometimes been even more mechanical in assessing federal jurisdiction. In a case in which neither party even raised the issue of patent validity, the Federal Circuit in dicta stated in *Ballard Medical Products v. Wright*, 823 F.2d 527, 531 (Fed. Cir. 1987), "[t]hat patent validity or infringement issues may have been injected during the course of an arbitration proceeding in a contract suit forms no basis for asserting that the district court's jurisdiction was based on § 1338 and hence forms no basis for assessing jurisdiction in this court."

Even if one were to unwisely accept that the label "contract suit" applies in *all* cases involving licenses, many

cases involving patent licenses will directly implicate the protection of the patent laws and will form a basis for asserting federal jurisdiction. Like the "primary" versus "secondary" analysis, without a more demanding assessment of the character of a plaintiff's complaint, this inflexible approach denies (1) that federal patent claims may exist coterminously with state law claims and (2) that state and federal interests can be harmonized through a federal court's assumption of jurisdiction over the patent issues and the application of state law through pendent or ancillary jurisdiction.

On its face, the *Ballard* approach seems to contradict the Federal Circuit's sound reasoning in *Air Products*, *supra*, that "resolution of a question of state law may render federal questions moot does not deprive a federal court of subject matter jurisdiction where the plaintiff bases his claim upon, and seeks remedies under, the patent laws, even where the complaint anticipates a defense of license." *Air Products*, *supra*, at 1563. As such, the "arising under" question seems to be a perplexing topic even for the Federal Circuit and demands greater definition especially in cases seeking patent protection in the context of the revocation, abandonment, recision or termination of patent licenses.

Moreover, lacking adequate definition of the reach of federal jurisdiction in such cases, litigants are precariously uncertain of the risks they may encounter when attempting to litigate patent questions after completion of coordinated or companion state court litigation. The potential exists for the federal courts to be bound by the findings of state courts under principles of issue preclusion. If Petitioners were to rely upon the companion federal action in this case to finally decide the patent issues after the state courts have decided the same issues under the cloth

of state contract law, Petitioners may well be barred by the doctrine of res judicata from relitigating the patent issues despite their claim that the state courts lacked subject matter jurisdiction over the patent claims. In *MGA, Inc. v. General Motors Corp.*, 827 F.2d 729 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1009, 108 S.Ct. 705 (1988) the federal plaintiff's disagreement with the state courts' analysis of federal patent law did not prevent application of principles of res judicata and collateral estoppel to MGA's infringement action brought in federal court after conclusion of the state proceedings.

The companion federal suit in this case, therefore, may not have any effect, making the state courts the courts of first and last resort on questions of exclusive federal jurisdiction. Although the question has been asked in reference to a license, Respondents ask the state courts to declare their exclusive entitlement to rights bestowed by federal patent laws. As such, the state courts have been asked to determine the respective rights and duties of Petitioners and Respondents over the manufacture of the automotive part under patent protection. In this case, there can be no expiration of the claimed license agreement without an infringement of patent rights. These are matters that have been placed before the federal court for resolution.

Although the companion federal case may have "an independent purpose and contemplates some other relief, [the federal suit] is a collateral attack if it must in some fashion overrule a previous judgment." *MGA, Inc. v. General Motors Corp.*, 827 F.2d 729, 732 (Fed. Cir. 1987) (quoting *Miller v. Meinhard-Commercial Corp.*, 462 F.2d 358, 360 (5th Cir. 1972). In *MGA, Inc. v. General Motors Corp., supra*, although the issue of subject matter jurisdiction

and the preemptive nature of exclusive federal jurisdiction were not expressly raised, the potential reach of a state court's findings on patent issues raises the issue whether the federal court in this case could disregard the state court's findings and turn a fresh eye to the resolution of conflicting claims to the patent. Ironically, the support given for such an outcome by the court in *MGA, Inc. v. General Motors Corp.*, elevated judicial economy over the maintenance of a uniform body of federal patent law. The court reasoned that, "[a]lthough the state courts' opinions may be less than ideal discussions of patent law, the dispute presented by the parties was resolved. The result need not be the result that a second court would reach to invoke principles of res judicata. *Finality, not correctness is the key.*" *Id.* at 733.[9]

The historical interpretation of Congressional and constitutional grants of federal jurisdiction has been sensitive to overly broad intrusions on the states' ability to provide for the determination of controversies in their courts over state causes of action. At the same time, however, the federal judiciary must protect against encroachments upon exclusive federal jurisdiction. In 28 U.S.C. § 1338(a) and (b), Congress has vested the federal courts with exclusive jurisdiction over patent cases, and the Federal Circuit

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[9] By pointing out this potential misapplication of the doctrine of res judicata, Petitioners in no way concede that they will be estopped from relitigating the patent issues before the federal court. Petitioners assert that the state trial court has no subject matter jurisdiction over the patent issues, and therefore, no judgment of the state court covering the patent issues can be given preclusive effect. However, the potential for misapplication of the doctrine of res judicata exists unless both the state and federal courts clearly understand the limits of their jurisdictional authority and abide by those parameters.

was established in October of 1982 with exclusive appellate jurisdiction over patent cases partly in an attempt to bring uniformity to patent law. Given Congress' enactment of a substantive body of federal law giving exclusive jurisdiction to the federal courts, the broad assumption of jurisdiction by the state courts contradicts the intent of Congress in building a uniform body of federal substantive law vital to which is the exercise of federal court jurisdiction.

Petitioners ask the Court to grant its Petition for Writ of Certiorari to limit the state court's exercise of jurisdiction to the question whether a patent license existed, and if one existed, whether it has expired. The state court can go *no* further—to define the rights and interests of the parties to the patent—and respect the exclusive jurisdiction of the federal courts and remain within its subject matter jurisdiction.

CONCLUSION

For the reasons stated above, Petitioners respectfully request an order of this Court granting this Petition for Writ of Certiorari to the Michigan Supreme Court.

Respectfully submitted,

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